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C O N F I D E N T I A L SECTION 01 OF 03 RIYADH 000226

SIPDIS

TREASURY FOR D/S NEAL WOLIN

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TAGS: [ECON](#) [PREL](#) [EFIN](#) [EINV](#) [SA](#)  
SUBJECT: TREASURY D/S WOLIN DISCUSSES ECONOMIC AND  
FINANCIAL ISSUES IN SAUDI ARABIA

Classified By: Ambassador James B. Smith for reasons 1.4(b) and (d)

11. (U) Summary: On February 13-14, Treasury Deputy Secretary Neal Wolin visited Saudi Arabia and met with Saudi Arabian Monetary Agency (SAMA) Governor Muhammad Al Jasser and Minister of Finance Ibrahim Al Assaf. Wolin reviewed the improving strength of the U.S. and global economies, and other issues of mutual interest at the International Monetary Fund (IMF) and Group of Twenty Finance Ministers and Central Bank Governors (G-20).

12. (U) In Riyadh, the Deputy Secretary also participated in a roundtable discussion at SAMA with several Saudi bank chairmen, sharing views on the global economic recovery. In Jeddah, Wolin gave a speech at the Jeddah Economic Forum on Global Economic Governance after the Crisis. End summary.

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MEETING WITH SAMA GOVERNOR JASSER  
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(U) Economic Recovery  
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13. (U) Wolin overviewed the encouraging signs of recovery in the U.S. economy, while noting that challenges with respect to high unemployment and the housing markets persist. Wolin shared the USG's thinking with respect to the intermediate and longer-term fiscal picture, ongoing work on regulatory reform, and USG efforts to boost growth in small- to medium-sized enterprises (SMEs).

14. (C) Overall, Jasser felt positive about the trajectory of U.S. economic recovery, noting that he did not subscribe to the "double-dip" theory. He was interested to see where things would go with smaller financial institutions when "things cool down," and whether the theory of "too big to fail" would persist in the future. Jasser was also interested to learn about U.S. plans to support SMEs, noting his view that SMEs represent the key to the job growth in the U.S.

15. (C) Referencing the unprecedented policies undertaken by the Treasury Department over the last year and a half and the subsequent improvement in the U.S. economy, Jasser shared his belief in the necessity of taking a long-term view when making policy decisions. Many times, he said, important and dramatic decisions are unpopular at the outset. Wolin offered a corollary -- that as things improve, memories become short and it is hard for some to remember that we were only recently staring into a potential abyss.

16. (C) Jasser described the importance of the G-20 London Conference in April, calling it a "watershed moment" for the global economy where the world's largest economies came

together to make important decisions on financial regulation and economic growth. Wolin commended Saudi Arabia on its bold fiscal stimulus efforts. Jasser thanked Wolin for his comments, noting that Saudi Arabia "didn't need to do it for ourselves, but did it for the global economy," and was therefore glad that the efforts had been appreciated. (Note: Saudi Arabia announced in 2009 a \$500 billion fiscal stimulus package to be spent over 5 years. End note.)

(U) Saudi Arabia's Enlightened Self Interest

¶17. (C) Jasser stated that for over thirty years, Saudi Arabia has made decisions based on the long-term impact of those decisions on the global economy, rather than on the basis of domestic political considerations. For example, Saudi Arabia was conscious of the global impact of its decision-making during the Iranian Revolution, Iran/Iraq War, economic crisis in Latin America, and even in the "good times" in 2006-2008, when good policies could make a difference. He stated Saudi Arabia is not "dumb" or "altruistic," but acts out of "enlightened self interest."

¶18. (C) Jasser stated that, as an oil economy, Saudi Arabia has the ability to both undermine and safeguard the world's economy. He noted that Saudi Arabia was able and willing to support reform efforts at the IMF and World Bank, but that the ability to harm or help the global economy is a better measure of a nation's relative economic importance than GDP. (Note: This was probably a reference to the IMF's policy of basing a large portion of IMF quota share on the GDP of member economies and the ongoing dialogue on whether certain countries - including Saudi Arabia - will lose quota share.

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End note.)

(U) The Riyal-Dollar Peg and Global Growth

¶19. (C) Jasser reaffirmed Saudi Arabia's support for the riyal-dollar peg, noting that the peg is in Saudi Arabia's "cold-blooded self interest," though he noted it sometimes felt like "we are alone." Referencing past calls by China and others in the G-20 for an alternative to the U.S. dollar as the world's reserve currency, Jasser said some have asked him why he does not give up on the U.S. dollar. He turned to a response he gave to a European newspaper that asked why Saudi Arabia hadn't switched its peg to the Euro, "When oil is denominated in Euros, we'll research it."

(U) Saudi Bank Health and Conglomerates

¶10. (C) When asked about the health of Saudi Arabia's banking sector, Jasser noted that they weathered the crisis very well, despite some collateral damage. Jasser underscored the importance of the SAG's long-term counter-cyclical policies since 1966, and efforts to ensure its banks are neither over-leveraged nor exposed to toxic assets. He said banks were somewhat affected during the financial crisis, but added there was good provisioning. On non-performing loans, SAMA expected more than 200% provisioning, and held conservative capital ratio policies.

¶11. (C) Referring to the default of AH Al Gosaibi and Brothers Company and the Saad Group, two conglomerates run by Saudi families that defaulted on roughly \$20 billion in loans, Jasser stated that the families "thought they could get involved in dubious dealings, but then the market got involved." Wolin stated there was a sense of concern in the international financial community with regard to transparency in settling their debts. Jasser explained these were not financial institutions, and therefore not regulated by SAMA, and that much of the conglomerates' activity was outside the Kingdom. He was adamant that Saudi Arabia did not do anything inappropriate in helping to resolve the issue, noting that Saudi banks were able to offset some of their credit to these conglomerates against collateral. He added

that he has defended the Saudi actions publicly several times. Regarding allegations of "back-door deals," Jasser said that was "not the way it went -- the debt is still there, it is just set off plain and simple."

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MEETING WITH FINANCE MINISTER ASSAF  
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(U) Economic Recovery  
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¶12. (U) Wolin overviewed the encouraging signs of recovery in the U.S. economy, while noting that challenges with respect to high unemployment and the housing markets persist. Wolin shared the USG's thinking with respect to the intermediate and longer-term fiscal picture, ongoing work on regulatory reform, and USG efforts to boost growth in small- to medium-sized enterprises (SMEs).

¶13. (C) Assaf highlighted the strong relationship between the Saudi Ministry of Finance and the U.S. and said the G-20 had been a reflection of that cooperation. Assaf was a strong believer in the SAG's fiscal stimulus program, sharing that the SAG was doing what was right for the country by investing surplus in infrastructure and education. He hoped other countries in the G-20 were moving forward with their reforms as well.

(U) The Riyal-Dollar Peg and Global Growth  
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¶14. (C) Minister Assaf stated that the dollar peg has historically helped with predictability and reliability in the Saudi economy, according to Assaf, and "we are sticking to it." He affirmed that there are no alternatives to the dollar and stated that Saudi Arabia is not like China; the Kingdom's imports and exports are largely priced in dollars. He referenced IMF work from 3-4 years ago on global imbalances that had concluded that Saudi Arabia needs to save when oil prices are high. He also noted that Saudi Arabia's foreign exchange reserves are low related to China.

(U) Food Security  
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¶15. (C) Assaf and Wolin shared views on approaches to food

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security. Wolin overviewed the Administration's commitment to spending over \$3.5 billion on food security over the next three years, including a significant commitment to World Bank's Global Agriculture and Food Security Program (GAFSP). When asked whether the Saudi government would participate in the GAFSP, Assaf responded that he was personally interested in food security and supported both providing agricultural assistance to and promoting agricultural trade with developing countries. He noted the SAG is working with the Saudi Fund for Development, Islamic Development Bank, and the International Finance Corporation, and highlighted Saudi Arabia's investments in Ethiopian rice production. Assaf noted that such efforts are in Saudi Arabia's interest. Assaf said the SAG hadn't discussed participating in the GAFSP, but was happy to work with the program "in parallel and cooperatively."

¶16. (C) With respect to Afghanistan, Assaf said that the SAG had earmarked funds -- including a new \$150 million commitment -- but dispersing it had been slow because of concerns over Afghanistan's ability to administer and implement programs appropriately. (Note: The Saudi Fund for Development is waiting for the Government of Afghanistan to submit proposals. End note.)

(U) Liberia  
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¶17. (C) Wolin asked Assaf about a loan from the Saudi Fund for Development to Liberia. Liberia would like the loan restructured in conformity with the terms under the Highly

Indebted Poor Country (HIPC) debt relief program. The Saudi Fund for Development has yet to resolve this past loan, and it is holding up potential additional loans from the Saudi Fund that could help Liberia modernize the port of Monrovia. Assaf said that, although it is not a member of the Paris Club, it is active in the HIPC initiative, and was happy to look at the issue. (Note: Saudi Development Fund officials told Acting A/S Baukol earlier in the day that it has offered HIPC-comparable terms to Liberia, but could not do anything to write down Liberia's debt per its charter. End note.)

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(U) OUTREACH  
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¶18. (SBU) Deputy Secretary Wolin attended a roundtable lunch discussion at SAMA with members of SAMA's staff and four Saudi bank chairmen -- Ibrahim Al Touq of Banque Saudi Fransi, Khaled Olayan of Saudi British Bank (SABB), Abdulaziz Al Ohali of Saudi Investment Bank, and Abdulaziz Al Zamil of Alinma Bank. Much of the conversation centered on the state of the U.S. economy: how the U.S. will finance the budget deficit, foreign investment in the U.S., America's ability to wind down its expansionary fiscal policies, and whether the U.S. will increase taxes. In addition, several chairmen and SAMA Vice Governor Abdulrahman Al Hamidy raised their frustration over the USG's treatment of Saudis when entering the United States.

¶19. (U) In Jeddah, Wolin gave a speech at the Jeddah Economic Forum on Global Economic Governance after the Crisis. The text of the speech is publicly available on Treasury's website.

¶20. (U) This cable was cleared by D/S Wolin.  
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